BOSTON AND MAINE RAILROAD

131st ANNUAL REPORT 1963

BOARD OF DIRECTORS

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OFFICERS

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PATRICK J. MULLANEY, Vice President-Traffic
WILFRED H. HOLLAND, Vice President-Operations
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HERBERT F. FLOYD, Comptroller
THOROLD S. CURTIS, Treasurer
MAYNARD W. BULLIS, Clerk of the Corporation
PAUL C. DUNN, Chief Mechanical Officer
WHITCOMB HAYNES, General Manager
CHARLES F. YARDLEY, General Manager-Piggyback

TRANSFER AGENTS

Old Colony Trust Company, 45 Milk Street, Boston
The Hanover Bank, 70 Broadway, New York

As of March 1, 1964

TO OUR STOCKHOLDERS

President Benson

A fractional reduction of the Railroad's net loss from the prior year resulted in 1963 despite declines in freight revenue, a continuing passenger deficit, and higher operating expenses occasioned by the Boston and Maine's participation in the year long mass transportation demonstration program.

The Boston and Maine has not had a net operating loss in more than 35 years, a record that remained intact in 1963. Net losses have resulted from four main factors: net debits in rental of equipment from other lines, fixed charges, property taxes, and a continuing net deficit in passenger operations.

Net costs of equipment rentals were reduced by more than $400 000 during the year, continuing the inroads in this deficit area. The Railroad's position on car rental rates will be pressed forward in hearings scheduled by the Interstate Commerce Commission in March and June, 1964. Efforts have been undertaken in a number of other directions to achieve further reduction of net rental costs.

More than $5,600,000 of long term debt was paid off during the year, and fixed charges were reduced by more than $200,000.

Joint Federal-State grants of more than $2,000,000 during the year reduced the net deficit from passenger operations. Nevertheless, the effect of the passenger service deficit on net revenues continued to be a major problem for the Railroad. The Boston and Maine's 1963 net passenger deficit absorbed more than 15% of the Railroad's net revenue from all operations and 44% of net income from freight operations.

While the mass transportation demonstration program attracted more riders to the Boston and Maine, it proved that the costs of the two main commuter incentives—high frequency service and low fares—are beyond the means of a privately operated transportation system in New England. A conclusion stated publicly by the Mass Transportation Commission should prove helpful to the Railroad in its petition for discontinuance of passenger operations. In a progress report on the program, the Commission declared that railroads in Massachusetts, including the Boston and Maine, "are far more important to the continued economic vitality of the Commonwealth because of their freight services than because of their commuter passenger services."

Record breaking winter conditions in the first two months of 1963 imposed heavy strains on the Railroad's efforts to hold the line on expenses. Nevertheless, rigid attention to cost and productivity factors resulted in an operating ratio of 78.55 for the year. For the fifth successive year, this was the lowest operating ratio scored by any railroad in New England.

The agreement reached during the year for disposition of the Railroad's North Station properties at a price of more than $1,000,000 above independently appraised valuation was an important forward step in the program of realizing needed cash from the sale of property that is not essential to the Railroad's operations.

Keen public interest was focused on discussions begun during the year by five Eastern railroads, including the Boston and Maine, on the feasibility of a New England rail system. With the assent of the Boston and Maine and the New Haven, the Pennsylvania and New York Central Railroads requested a two-month extension for filing of briefs in their merger proposal before the Interstate Commerce Commission. The two railroads indicated that they

wished more time to study the financial feasibility of a New England railroad.

Transportation policies espoused by the late President John F. Kennedy were re-affirmed by President Lyndon B. Johnson. A bill that would eliminate some of the competitive advantages enjoyed by water carriers over the railroads was voted out by the House Committee on Interstate and Foreign Commerce under the chairmanship of Representative Oren Harris of Arkansas. Barge interests moved promptly to mobilize vigorous opposition to enactment of this needed legislation.

As a businessman or a taxpayer—and above all as an investor in the railroad industry—your support of our efforts to achieve a healthy competitive posture in the nation's transportation network is greatly needed and earnestly solicited.

Daniel A Benson

President

REVIEW OF 1963

OPERATING RESULTS

Operating revenues of $63,598,651 in 1963 were fractionally less than the $64,040,384 realized in 1962, while operating expenses of $49,958,911 during the year were slightly higher than the 1962 expenses of $49,540,758.

Net railway operating income declined 2.3% to $2,787,483 from $2,853,407 reported a year earlier. After other non-operating income and expense, $2,644,761 remained available for fixed charges, compared with $2,835,374 in 1962. The net loss after fixed and contingent charges was $2,871,714 compared with a net loss of $2,890,153 in 1962.

The operating ratio of 78.55% for 1963 marked the fifth consecutive year in which the Boston and Maine's ratio of expenses to revenues was the lowest among all New England railroads.

FREIGHT BUSINESS

Freight revenue in 1963 was $52,170,144 as compared with $54,928,337 in 1962, a decrease of 5%. Volume as expressed in revenue net ton miles declined 6.9%, but average revenue per ton mile increased from 1.964¢ in 1962 to 2.005¢ in 1963.

Factors in 1963 that accounted for these changes were:

Trainload movements of fill for construction of Interstate Route 93 in Medford, Massachusetts, came to an end in the summer of 1963. Begun in the spring of 1961, this movement had accounted for more than one half of the total volume of local freight on the Boston and Maine throughout 1961 and 1962. This was handled at a low rate per car. Hence, its termination resulted in an increase in the average revenue per ton mile for all freight handled.

Coal movements declined because of conversions to oil of a number of industries.

During the year three large bulk cement terminals began operation in the Boston area, receiving by water and distributing by truck.

Rail movement of bulk salt encountered severe competition from salt received at New England ports despite the Railroad's effort to prevent this through reduced rates from domestic producing points.

Steel and newsprint paper continued to move into New England from foreign sources, displacing production on this continent.

Recurring strike threats by labor during the summer months resulted in the diversion of traffic from the Railroad.

Developments during the year that bear importantly on the Railroad's future prospects were these:

The competitive position of coal was improved at one of the Railroad's principal public utility receivers, which began receiving coal in trainload lots last summer at a reduced trainload rate. Another large utility and an important industry served by the Railroad are about to experiment with trainload movement which will reduce their delivered fuel cost.

Operators of paper and pulp mills in northern New England have announced expansion programs totaling more than $100,000,000. The two largest investments involve companies doing a continent-wide business. This should benefit the Boston and Maine whose largest source of revenue is the New England paper industry.

The Boston area is the scene of large-scale public and private construction programs. Contracts already awarded involve investments of more than $550,000,000, and additional heavy expenditures are anticipated. A number of major projects are within the immediate area of the Railroad's Boston facilities. The Railroad is participating in large movements of building materials and expects to further increase its participation in these programs.

PIGGYBACK

The growth trend of piggyback volume and revenue continued in 1963. The 26,860 revenue trailer loads handled in 1963 represented a 9.3% rise over the 24,580 loads handled in the previous year. Gross piggyback revenue, which approximated $2,500,000 in 1963, roughly 4.5% of total gross freight revenue, is expected to reach nearly $3,000,000 in 1964.

The Boston and Maine, with certain other railroads, expects to inaugurate a Plan V less-than-trailer-load, as well as a trailer-load, service by mid-1964. Plan V involves haul by motor common carrier, then rail, then haul by motor common carrier in through service, with the Railroad earning a division of the through rate. This is inter-modal rail-highway transportation, directly competitive with the combination long and short-haul motor common carriers for the high per-trailer freight-revenue traffic. The Boston and Maine believes that its entry into piggyback Plan V will add a superior service, particularly for small-lot high-revenue shipments, over that provided by the motor common carriers alone.

In 1963, the Railroad increased its fleet of highway trailers for piggyback use by 200 units, at the same time reducing the net total costs of lease and ownership of all its piggyback equipment by $48,000 annually.

Through renegotiation of piggyback equipment leases late in 1963, the Railroad expects to achieve further reductions in net piggyback equipment costs by approximately $350,000 annually in 1964.

PASSENGER BUSINESS

Passenger revenue in 1963 amounted to $5,007,997 as compared with $4,617,061 in 1962, an increase of 8.5%. Total revenue passengers carried increased 30.1% from 5,472,620 in 1962 to 7,118,585 in 1963.

As compared with a 1962 passenger service deficit of $3,788,987, the Railroad ended a one-year participation in the mass transportation demonstration program with a deficit of $2,159,313 despite receipt in 1963 of $2,021,032 from a joint Federal-State grant.

The Railroad's contract with the Mass Transportation Commission provided for total payments of $2,200,000 over a 12-month period in compensation for costs of increased service and reductions in one-way and commutation fares in the Boston suburban area. By agreement with the Mass Transportation Commission, multiple ride commutation fares were restored in August, 1963, to levels in effect in the pre-experimental year of 1962. At the same time, incentive fares for off-peak hours were established.

Although passenger volume increased during the demonstration program, revenue results made it plain that the Railroad had no choice but to move towards elimination of its large and continuing passenger service deficit.

On December 8, 1963, the Railroad announced that upon termination of its contract with the Mass Transportation Commission, a petition for complete discontinuance of passenger service in and out of Boston would be filed with the Massachusetts Department of Public Utilities.

The Railroad was requested to extend the demonstration project for a 10-week period ending March 21, 1964. A new contract was signed, providing for payment to the Railroad of $300,000. The Railroad agreed to operate its passenger service at approximately the levels of the experimental year of 1963. Commutation fares remained unchanged. The new contract with the Mass Transportation Commission did not affect the right of the Railroad to proceed with its petition for discontinuance, which was filed on January 6, 1964. It is expected to be heard on April 9, 1964.

On March 22, 1964, the Railroad's passenger service will revert to the pre-experimental levels of 1962.

EQUIPMENT RENTALS

Continued efficiency in car handling and a decrease in long-term equipment lease costs resulted in annual reduction in net rents for equipment and joint facilities for the second consecutive year.

Net costs for 1963 were $6,177,872, a decrease of $427,662 from the 1962 figure.

IMPROVEMENTS

Capital expenditures for road property and equipment in 1963 were $3,640,313.

Equipment

The Railroad invested $1,011,800 in new piggyback trailers.

An investment of $145,000 in electronically controlled automated tie tampers yielded a productivity increase of 30% in tie resurfacing operations and is producing annual savings of $45,000 to the Railroad. Tie ax and tie inserter equipment costing $55,000 will yield annual savings of $81,000.

Communications and Signals

Radio coverage was extended to 90% of all through freight trains and 50% of all local freight trains. The use of radio has made possible two-way communication between engines and cabooses on trains, and between engines and towers.

More than 40 yard diesel engines are now radio equipped. Use of radio in yard service, particularly under adverse weather or emergency conditions, is now benefiting shippers by saving time in makeup of trains, brake tests and other terminal work.

All maintenance of way mobile equipment and all cars assigned to supervision are now radio equipped.

CONSOLIDATIONS AND RETIREMENTS

Economies resulting in additional annual savings of $279,346 were achieved in 1963 through elimination of manual protection at public crossings and through retirement and consolidation of freight and ticket agencies no longer in public demand. At the end of the year, operating expenses and taxes in these two areas were running at an annual saving of $8,851,619 as compared with costs in 1956, when the Railroad initiated a long range program of consolidations, retirements and acceleration of public crossing protection projects.

A petition to abandon the Troy Union Railroad was approved by the Interstate Commerce Commission. Tracks of the Troy Union Railroad have been removed and the right of way sold to the city of Troy.

INDUSTRIAL DEVELOPMENT

New and expanded manufacturing, warehousing and storage facilities totalling 850,000 square feet located on the Railroad during the year are expected to produce more than 8,000 cars of freight annually.

The first 150,000 square feet of a large plant for Colonial Press, Clinton, Mass., is nearing completion. This structure is on land sold by the Railroad. It is served by a 1,400-ft. sidetrack and should produce substantial traffic.

Tampax, Inc. is now in operation in its new 100,000-foot manufacturing and office building at Claremont Junction, N. H. This building is served by extensive sidetrack facilities and will be expanded to 300,000 feet on a newly acquired site.

Total trackage installed for industrial use in 1963 was 7,300 lineal feet.

A new industrial park in Gardner, Mass., will be served by the Boston and Maine. A plant with 30,000 feet of floor space is under construction. A second industry has acquired a seven-and-one-half acre site for plant construction.

A 300-acre industrial area in South Deerfield, Mass., is now under development.

In New Hampshire there are now fifteen industrial parks, the majority of which are served by rail facilities.

CORPORATE DEVELOPMENTS

North Station Properties

In July, 1963, the Railroad's Board of Directors approved an agreement with Linnell & Cox, Inc. for the sale of the North Station properties which, for several years, had failed to yield an adequate return on investment.

These properties were independently appraised at $7,130,000. The price negotiated is $8,142,000.

Sale of the Madison Hotel was consummated in July, 1963, for $2,000,000. The North Station office building was sold in December, 1963, for $2,600,000. The purchasers have an option on the remaining North Station properties running to October, 1964.

The transaction generated needed cash for the Railroad. At the same time, the Railroad's subsidiaries were relieved of annual real estate taxes of $172,155 on the Madison Hotel and $211,200 on the office building.

Merger Studies

About a year ago on the suggestion of the Boston and Maine, seven New England Senators urged the White House to approve a New England merger study. Instructions to this effect were directed to the Commerce Department by the late President John F. Kennedy. The firm of Arthur D. Little was retained by the Government on a study still in progress.

On October 29, 1963, the long-standing B&M proposal for a study to determine the feasibility of a New England railroad system received its greatest forward impetus to date when five eastern lines announced jointly they would undertake such a study. Participating in the program, which is continuing into 1964, are the Boston and Maine, the New Haven, the New York Central, The Pennsylvania, and the Norfolk and Western.

Per Diem Case

A study by the cost finding section of the Interstate Commerce Commission was completed during the year, with conclusions that lent support to the position of the Boston and Maine in this long standing litigation. The Railroad believes that its objections to the formula used by large car owning railroads in arriving at car rental rates have been fully supported by the results of the Commission's study. The Commission held extenive hearings in July and August of 1963, and further hearings on the results of the study are set for March and June of 1964.

Meanwhile, the Railroad is continuing its established scale of freight car rental payments.

Port Parity Case

The United States Supreme Court affirmed the decision of the trial court in the long contested port parity case. Rates on import-export rail freight via the ports of Boston and New York are now on an equal footing with those in effect at the ports of Philadelphia, Baltimore, and Norfolk. The Supreme Court ruling has spurred efforts by Massachusetts business, industry and government to attract increased export-import traffic to Boston's ocean gateway.

LONG-TERM DEBT CHANGES

Balance at beginning of year	$95,459,414
Increase:	
Collateral Trust Note dated July 30, 1963 due July 1, 1966	1,000,000
Equipment and road property obligations for new acquisitions	1,166,203
Total increase	2,166,203
Decrease:	
Equipment and road property obligations paid	4,281,943
Principal payments made on Collateral Trust Notes	366,667
Series SS, 6% Bonds paid off and retired (annual serial maturity)	959,484
Total decrease	5,608,094
Net change during the year (decrease)	3,441,891
Balance at end of the year	$92,017,523

GUARANTEED NOTE

Application was filed with the Interstate Commerce Commission for guaranty of a loan from The First Pennsylvania Banking and Trust Company of Philadelphia of $1,000,000 with interest at 4¾% per annum under the provisions of Part V of the Interstate Commerce Act, as amended. An order approving the loan and guaranty was issued by the Commission on July 24, 1963. Closing of the loan and issuance of the note was on July 30, 1963. The note is due in full on July 1, 1966, and requires no prepayment of principal.

The note requires payment of interest on the principal balance on the first days of January, April, July, and October in each year until the note is paid at maturity. At the option of the Railroad, after June 30, 1964, the note may be prepaid in whole or in part without premium.

TAXES

Railway taxes aggregated $4,674,385 in 1963, as compared with $5,040,685 in 1962, a reduction of $366,300.

Federal income taxes in 1963 amounted to $167,770 and consisted of taxes on leased line rentals. A favorable Federal District Court decision was received during the latter part of 1963, awarding a federal income tax refund for the year 1946 to the Northern Railroad, a leased line. The tax and interest totalling about $200,000 will be payable to the Boston and Maine Railroad under the terms of the lease. The government has appealed this decision.

Payroll taxes for employee retirement, unemployment and sickness benefits amounted to $2,393,738 in 1963, compared with $2,491,598 in 1962, a net decrease of $97,860, although the taxable amount per employee increased from $400 to $450 a month, effective November 1, 1963.

The provision is shown in the following table:

	1963	*1962*
State and Municipal	$2,093,372	$2,407,070
Federal Payroll	2,393,738	2,491,598
Federal Income	167,770	123,953
Other	19,505	18,064
Total	$4,674,385	$5,040,685

SYSTEMS AND RESEARCH

Increased productivity of Univac computer operation was attained during 1963 through work absorption and new programs and procedures affecting nearly all departments.

New procedures included a mechanized control system for determining vacation eligibility and daily personnel record keeping for Engineering Department employees. An effective per diem summary card system was installed for the Car Service office, expediting the checking of records of foreign cars on line.

An improved Univac computer was installed in December to replace four remaining tabulating machines. All reports from the Central Data Processing Division will now be prepared electronically. The resultant savings will be applied toward absorbing greatly-increased work volume caused by industry adoption of new and complex reporting formulas for car rental and freight commodity data, both effective January 1, 1964.

EMPLOYEE RELATIONS

On November 26, 1963, an Arbitration Board appointed by the late President Kennedy pursuant to Public Law 88-108 rendered its award in the national work rules case involving the elimination of locomotive firemen in freight and yard service and the size of train crews. The award will permit the elimination of firemen with less than two years service and those firemen whose earnings in the past two years do not indicate they are regular full-time railroad employees. Other firemen with between two and ten years service may be eliminated through the offer of other comparable employment and by the offer for five years of certain protective conditions.

The crew consist issue was referred back to the individual railroads to settle locally and through arbitration if necessary. The three remaining issues (wage rates, interdivisional runs, and road and yard service) are the continuing subject of negotiations.

The various non-operating organizations served demands under the Railway Labor Act in 1963 for hourly wage increases, stabilization of employment, increased holiday and vacation pay, and improved health and welfare benefits. No settlement has yet been made on any of these demands. The Brotherhood of Locomotive Engineers and the Brotherhood of Locomotive Firemen and Enginemen filed demands in November and December of 1963 requesting sizable wage increases, supplemental pension plans, health and welfare benefits, life insurance, and other fringe benefits. An agreement was negotiated nationally in December with the Brotherhood of Railroad Trainmen settling their demands for wage increases and for health, welfare and life insurance benefits. The annual cost to the railroad will be $270,000 if present levels of employment continue.

The Boston and Maine Railroad is grateful to all employees for their continued cooperation throughout the past year.

D. A. Benson

President

ASSETS

	December 31 1963	December 31 1962
CURRENT ASSETS:		
Cash	$ 2,243,575	$ 2,913,742
U. S. Government treasury bills, at cost (approximate market)	795,886	–
Special deposits	137,957	178,589
Accounts receivable	4,802,616	4,441,435
Inventories of materials and supplies, at cost	2,814,103	2,812,544
Prepayments and other current assets	488,648	289,476
TOTAL CURRENT ASSETS	$ 11,282,785	$ 10,635,786
PROPERTIES (NOTE 2):		
Roadway and structures, including improvements to leased properties—$11,137,241 in 1963, $11,761,897 in 1962	$179,940,565	$178,043,656
Equipment	73,575,940	73,181,335
	$253,516,505	$251,224,991
LESS:		
Depreciation of roadway and structures	(7,754,166)	(6,901,161)
Depreciation of equipment	(23,777,897)	(21,956,397)
	$221,984,442	$222,367,433
Miscellaneous physical properties, less depreciation—$275,122 in 1963, $269,824 in 1962	2,460,766	2,344,243
	$224,445,208	$224,711,676
INVESTMENTS AND OTHER ASSETS:		
Investments in leased lines (Page 15)	$ 3,514,841	$ 3,460,993
Investments in and advances to subsidiaries and other affiliated companies (Page 15 and Note 1)	3,392,631	3,845,934
Other investments (Page 16)	1,478,832	1,310,645
Deposits with trustees for first mortgage bonds and equipment obligations	104,057	162,710
Other assets and deferred charges	2,409,246	2,476,984
	$ 10,899,607	$ 11,257,266
	$246,627,600	$246,604,728

BALANCE SHEET

LIABILITIES AND CAPITAL

	December 31	
	1963	1962
Current liabilities:		
Accounts payable	$ 10,194,193	$ 9,751,884
Accrued vacation pay	1,538,935	1,493,470
Accrued interest	1,498,795	1,586,924
State and local taxes	3,953,419	2,803,178
Estimated current portion of injury and damage claims	1,288,798	1,494,785
Total current liabilities (excluding long-term debt due within one year)	$ 18,474,140	$ 17,130,241
Long-term debt due within one year (Page 16):		
First mortgage bonds	$ 959,484	$ 959,484
Equipment and other obligations	3,706,102	4,563,052
	$ 4,665,586	$ 5,522,536
Long-term debt (Page 16):		
First mortgage bonds	$ 46,560,264	$ 47,519,748
Income mortgage bonds	18,826,500	18,826,500
Equipment and other obligations	21,965,173	23,590,630
	$ 87,351,937	$ 89,936,878
Other liabilities and deferred credits:		
Provision for disputed per diem charges (Note 4)	$ 9,661,880	$ 8,744,232
Provision for injury and damage claims	859,961	804,383
Accrued depreciation on leased property and other liabilities to leased lines	3,835,122	2,082,016
Unearned interest accrued on income mortgage bonds	4,518,360	3,765,300
Other	1,210,056	751,599
	$ 20,085,379	$ 16,147,530
Capital and retained income:		
Capital stock (Note 5):		
5% Preferred stock, $100 par value:		
Authorized—244,459 shares in 1963, 246,067 in 1962		
Issued (excluding 5,266 shares held in treasury)—239,193 shares in 1963, 240,801 in 1962	$ 23,919,300	$ 24,080,100
Common stock, no par value:		
Authorized—1,093,852 shares		
Issued (excluding 4,249 shares held in treasury)—589,311 shares in 1963, 586,497 in 1962	58,931,125	58,649,725
	$ 82,850,425	$ 82,729,825
Additional capital (Note 5)	25,889,994	26,010,594
Retained income (Page 14 and Note 6)	7,310,139	9,127,124
	$116,050,558	$117,867,543
Contingent obligations and commitments (Note 7)		
	$246,627,600	$246,604,728

BOSTON AND MAINE RAILROAD
STATEMENT OF INCOME

	Year ended December 31 1963	1962
Operating revenues:		
Freight	$ 52,170,144	$ 54,928,337
Passenger	5,007,997	4,617,061
Other (including passenger subsidy of $2,021,032 in 1963—Page 5)	6,420,510	4,494,986
	$ 63,598,651	$ 64,040,384
Operating expenses:		
Transportation	$ 29,417,300	$ 28,772,887
Maintenance of way and structures	6,881,534	6,865,402
Maintenance of equipment	9,207,058	9,160,100
Traffic, general and miscellaneous expenses	4,453,019	4,742,369
	$ 49,958,911	$ 49,540,758
Net revenue from railway operations	$ 13,639,740	$ 14,499,626
Other operating charges:		
Payroll, property and state excise taxes, etc.	$ 4,674,385	$ 5,040,685
Net rents for equipment and joint facilities	6,177,872	6,605,534
	$ 10,852,257	$ 11,646,219
Net operating income	$ 2,787,483	$ 2,853,407
Nonoperating expense—net	142,722	18,033
Net income before fixed charges and contingent interest	$ 2,644,761	$ 2,835,374
Fixed charges:		
Rent for leased lines, etc.	$ 453,938	$ 476,852
Interest:		
First mortgage bonds	2,855,140	2,914,302
Equipment trust certificates	511,315	573,925
Conditional sale contracts	439,890	544,472
Other	410,174	366,572
Amortization of long-term debt discount and expense	92,958	96,344
	$ 4,763,415	$ 4,972,467
Net loss before contingent interest	$ 2,118,654	$ 2,137,093
Contingent interest	753,060	753,060
Net loss	$ 2,871,714	$ 2,890,153

STATEMENT OF RETAINED INCOME

	1963	1962
Balance at beginning of year	$ 9,127,124	$ 12,560,861
Additions (deductions) for the year:		
Net loss	(2,871,714)	(2,890,153)
Net gain on disposal of land	258,266	433,201
Track retirements	(364,054)	(966,378)
Dividend from North Station Industrial Building, Inc. (Note 1)	1,160,517	—
Other	—	(10,407)
Balance at end of year	$ 7,310,139	$ 9,127,124

BOSTON AND MAINE RAILROAD
STATEMENT OF INVESTMENTS IN LEASED LINES
DECEMBER 31, 1963

	No. of shares owned	*% owned*	*Cost*	*Approximate value based on current market quotations*
Northern Railroad	19,727	64.3	$2,045,519	$1,578,000
Stony Brook Railroad	1,807	60.2	149,445	117,000
Vermont & Massachusetts Railroad	11,647	36.5	1,319,877	932,000
			$3,514,841	$2,627,000

The shares in leased line companies have been acquired over the period from 1937 to 1963. At December 31, 1963 all of the shares were pledged to secure long-term debt. Annual rentals of the leased lines, under long-term leases, amount to approximately $405,000 plus certain federal and state taxes of the leased line companies which currently aggregate about $220,000 per year. Dividends received from the leased line companies amounted to $195,000 in 1963 and $185,000 in 1962.

STATEMENT OF INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES AND OTHER AFFILIATED COMPANIES
DECEMBER 31, 1963

	Investments in capital stocks	*Notes and advances*	*Total investments and advances*	*Approximate net assets of subsidiaries (unaudited)*
WHOLLY-OWNED SUBSIDIARIES:				
*Boston & Maine Transportation Company	$100,038	$1,223,979	$1,324,017	$ 655,000
*North Station Industrial Building, Inc.	1	—	1	1,011,000
*North Station Hotel Building, Inc.	100	338,291	338,391	41,000
The Mystic Terminal Company	5,000	80,000	85,000	85,000
*Springfield Terminal Railway Company	186,030	—	186,030	383,000
Charlestown Waterfront Facilities, Inc.	300,000	43,030	343,030	313,000
Pine Tree Corporation	50,000	—	50,000	27,000
Connecticut River Valley Company, Inc.	165,000	—	165,000	170,000
B & M Railroad Radio Co., Inc.	1,000	—	1,000	—
	$807,169	$1,685,300	$2,492,469	$2,685,000
OTHER AFFILIATED COMPANIES:				
*Railway Express Agency, Inc.	2,300	665,058	667,358	
Pullman Company	175,304	—	175,304	
*Trailer Train Company	50,000	—	50,000	
*Troy Union Railroad Company (25% owned)	7,500	—	7,500	
	$1,042,273	$2,350,358	$3,392,631	

*The capital stocks of these companies, the note and advances due from Boston & Maine Transportation Company ($1,223,979) and note of Railway Express Agency, Inc. ($665,058) are pledged to secure long-term debt.

BOSTON AND MAINE RAILROAD
STATEMENT OF LONG-TERM DEBT
DECEMBER 31, 1963

	Portion due	
	Within one year (a)	*After one year* (a)
FIRST MORTGAGE BONDS (b):		
Series SS, 6%, due serially to August 1, 1965	$959,484	$44,136,264
Series AC, 5%, due September 1, 1967	–	2,424,000
	$959,484	$46,560,264
INCOME MORTGAGE BONDS, SERIES A, 4½% (4% cumulative), due July 1970 (c)	–	$18,826,500
EQUIPMENT AND OTHER OBLIGATIONS:		
Equipment Trust Certificates, Series I, 4½% to 6% due March 1971, secured by equipment of an aggregate original cost of $23,534,000	$1,234,000(d)	$ 8,638,000
Guaranteed Notes 4¾% to 5% due 1965 to 1977 secured by $1,790,700 principal amount of Series SS bonds, capital stock of leased lines, capital stock and notes of subsidiary and affiliated companies (Page 15) and "other investments" carried at cost of $1,122,310	366,667	7,441,667(e)
Conditional sale contracts maturing at various dates from January 1964 to October 1971, secured by equipment of an aggregate original cost of $38,920,000	2,105,435	5,885,506(e)
	$3,706,102	$21,965,173
	$4,665,586	$87,351,937

(a) Amounts outstanding are exclusive of bonds owned by the Railroad—$1,790,700 of Series SS bonds pledged against guaranteed notes, $641,000 of Series AC bonds held by the first mortgage trustee, and $436,000 of income mortgage bonds which are unpledged.

(b) The first mortgage bonds are secured by substantially all the road properties and equipment of the Railroad, its operating franchises, leases and agreements, and its investment in the capital stock of Troy Union Railroad Company, subject to the prior lien of equipment trust obligations and conditional sale contracts in the case of certain property and equipment as indicated in the statement above. Interest is payable semiannually at the indicated rates for the two series. The Series SS bonds mature in principal amounts of $959,484 on August 1, 1964 and the remaining $44,136,264 on August 1, 1965.

(c) The income mortgage bonds are secured by a second mortgage on the same properties as those securing the first mortgage bonds. Interest is payable at the rate of 4½% per annum if "available net income" is sufficient and, if not earned, is cumulative and payable not later than the maturity of the bonds at the rate of 4% per annum. The income mortgage bonds are entitled to the benefit of a sinking fund provision under which the Railroad is required annually, on or before September 1, to deposit with the trustee $483,000 in cash or Series A bonds (at the lesser of their principal amount plus accured interest, or their cost to the Railroad) if "available net income" is sufficient. There has been no sinking fund obligation since 1958.

(d) The same amount matures within each subsequent year to maturity.

(e) Payable at varying amounts each year to maturity.

BOSTON AND MAINE RAILROAD
NOTES TO FINANCIAL STATEMENTS

Note 1—Subsidiary Companies

The accounts of wholly-owned subsidiaries of the Railroad engaged in truck transportation, real estate and other types of operation are not consolidated in the accompanying financial statements. The investments in and advances to these subsidiaries are shown on Page 15. Two subsidiaries, North Station Industrial Building, Inc. and North Station Hotel Building, Inc. sold substantially all of their operating assets during 1963. Neither the resulting gain of approximately $1,400,000 nor the excess of profits over losses from the operation of all wholly-owned subsidiaries, amounting to $2,000 in 1963, based on preliminary estimates ($50,000 net loss in 1962), are reflected in the accompanying statement of income. A dividend of $1,160,517 received in 1963 from North Station Industrial Building, Inc. is shown in the accompanying statement of retained income. No other dividends were received by the Railroad from its wholly-owned subsidiaries in 1963 or in 1962.

Note 2—Properties

The amounts shown in the balance sheet for properties represent the aggregate of acquisitions and additions (by merger, purchase, construction or otherwise), less retirements, recorded under the system of accounting prescribed by the Interstate Commerce Commission. In accordance with such accounting requirements the Railroad commenced providing for depreciation on roadway and structures (other than properties such as rail, ties, ballast and other track materials) on January 1, 1943. The cost of equipment has been subjected to a systematic policy of depreciation since it was acquired. The recorded cost, less salvage, of all depreciable properties retired is charged to the depreciation reserves.

With respect to rails, ties, ballast and other track materials, included in the roadway accounts in the amount of approximately $40,800,000 at December 31, 1963, the Railroad follows the prescribed practice of "replacement" accounting. For many years this accounting practice has been considered an acceptable alternative in the railroad industry to the more widespread practice of depreciation accounting. Under this practice replacements in kind are charged to maintenance expense and only improvements and additions are capitalized. The amounts capitalized are not depreciated. Retirements of such properties, less salvage, are also charged to maintenance expense, except that in recent years certain retirements which were considered abnormal have been charged direct to retained income. Gains and losses on disposals of land are credited or charged to retained income.

The accompanying statement of income includes charges for depreciation totaling $4,428,000 in 1963 and $4,457,000 in 1962.

Note 3—Federal Income Taxes

As of December 31, 1963, the Railroad had loss carry-overs for federal income tax purposes aggregating approximately $46,000,000 which would be available to apply against income in varying amounts through the year 1970.

Note 4—Provision for Disputed Per Diem Charges

The Boston and Maine Railroad is party to a dispute with other railroads over per diem rates for car rentals. For various reasons, including its situation as a so-called terminal line, the Railroad incurs more rentals than it earns. For several years payment has been made to other railroads at rates which are less than the rates adopted by the Association of American Railroads although full provision has been made on the books at the adopted rates, all by charges against income. The excess of amounts thus provided for on the books amounted to $9,661,880 as of December 31, 1963. The excess of amounts accrued and charged to income over payments amounted to $917,648 in 1963 and $989,019 in 1962.

Note 5—Capital Stock, Stock Options and Additional Capital

The 5% Preferred Stock is redeemable at any time at $100 per share plus accumulated unpaid dividends, and is convertible at the option of the holder into common stock at the rate of 1¾ shares of common stock for each share of preferred stock. The $120,600 decrease in additional capital in 1963 occurred in connection with the conversion of 1,608 shares of preferred stock into 2,814 shares of common stock.

Dividends on preferred stock, if not paid, are cumulative only if and to the extent (not exceeding 5% per annum) that earnings are available. On this basis there were no cumulative unpaid dividends at December 31, 1963. If earnings are sufficient, the Railroad is required to set aside annually one half of one per cent of the par value of the authorized preferred stock as a sinking fund for redemption of preferred stock, before dividends are paid on the common stock. There was no cumulative sinking fund obligation as at December 31, 1963.

At December 31, 1963 there were outstanding options granted to certain employees to purchase 30,833 shares of common stock of the Railroad at prices ranging from $6 to $16 per share or an aggregate of $317,000. Options were then exercisable for 23,568 shares at an aggregate of $265,000. No options were granted or exercised during the year. Under the present stock option plan, further options for 34,167 shares could be granted to key supervisory personnel at the fair market value at the time of the grant. Options generally become exercisable in instal-

ments over a five year period and remain exercisable until ten years after the date of the grant.

Note 6—Restrictions on Dividends and Additional Borrowings

The indentures securing the first mortgage bonds, the income mortgage bonds and the guaranteed notes contain various restrictive provisions under which, at December 31, 1963, the Railroad could not pay dividends on or make purchases of any class of its capital stock. The indenture securing the first mortgage bonds also contains restrictions on additional borrowings.

Note 7—Contingent Obligations and Commitments

In addition to the matters referred to elsewhere in the financial statements and notes, the Railroad had the following contingent obligations and commitments at December 31, 1963:

The Railroad rents approximately 2,500 freight cars under long-term leases which expire at various dates to 1970. Current annual rentals under the various leases amount to approximately $524,000. Certain of these leases provide options to renew for substantially lower rentals after the initial terms.

Together with other participating railroads, the Railroad has guaranteed repayment of equipment obligations of Trailer Train Company.

Under certain conditions the Railroad is required to make additional payments under a service interruption insurance policy carried jointly with other railroads.

The Railroad is plaintiff or defendant in numerous lawsuits which, in the opinion of company officials and counsel, will not have a material effect on its financial position. Three pending proceedings are derivative stockholders' suits arising out of actions pending against one present and two former officers of the Railroad. Recovery, if any, in these actions would inure to the benefit of the Railroad.

OPINION OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of the
Boston and Maine Railroad

We have examined the balance sheet of the Boston and Maine Railroad as of December 31, 1963 and the statements of income and retained income for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The depreciation reserves for roadway, structures and equipment, accumulated under accounting practices prescribed by the Interstate Commerce Commission as briefly explained in Note 2 of the notes to financial statements, are substantially less than reserves which would have resulted from a systematic method of depreciating the cost of all such properties from the time they were acquired. This deficiency has been augmented by the fact that the reserves which have been provided have been substantially reduced or, for certain classes of assets, eliminated entirely by charges for retirements which have been unusually large in recent years. The roadway and structures accounts still include substantial amounts for branch lines which produce a relatively small portion of the total revenues. Also, as mentioned on page 6, the Railroad has filed a petition with the Massachusetts Department of Public Utilities for discontinuance of all passenger service. As a result, significant losses on sales or further retirements of structures and equipment may be anticipated. At December 31, 1963, the property accounts included a net depreciated cost of more than $18,000,000 for structures and equipment used exclusively in passenger service. We have concluded that neither the current depreciation rates for property for which depreciation is being provided nor the "replacement" accounting method for rails, ties, etc. described in Note 2, provide adequately for retirement losses or obsolescence of the magnitude experienced by this railroad. We have also concluded that it would be impracticable at this time to determine the amount of provisions that would be adequate and reasonable for these purposes.

In our opinion, except for the inadequacy of provisions for depreciation and obsolescence discussed in the preceding paragraph, the financial statements referred to above present fairly the financial position of the Boston and Maine Railroad at December 31, 1963 and the results of its operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Boston, Massachusetts
March 13, 1964

A detailed financial and statistical supplement to this Report is available. For copies, please address: Maynard W. Bullis, Boston & Maine Railroad, Boston 14, Massachusetts